

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**RESPONSIBILITIES AND AUTHORITY OF
DEFENSE ACCOUNTING OFFICES**

Report No. 95-310

September 22, 1995

20000105 088

Department of Defense

DOIC Quality Improvement

AQI00-03-0853

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Responsibilities and Authority of Defense Accounting Offices

B. DATE Report Downloaded From the Internet: 01/04/99

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D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

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Acronyms

AFB
DFAS
JTR

Air Force Base
Defense Finance and Accounting Service
Joint Travel Regulation



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



September 22, 1995

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Report on Responsibilities and Authority of Defense Accounting Offices
(Report No. 95-310)**

We are providing this final report for review and comment. This report makes recommendations to correct a material management control weakness identified during our audit of the Defense Business Management System. Management comments on a draft report were not received and thus are still needed.

Management should provide comments on this final report that conform to the requirements of DoD Directive 7650.3. We request that the Defense Finance and Accounting Service provide comments by October 23, 1995.

We appreciate the courtesies extended to the audit staff. Questions concerning the audit should be directed to Mr. Christian Hendricks, Audit Program Director at (703) 604-9140 (DSN 664-9140) or Ms. Victoria C. Hara, Audit Project Manager at (703) 604-9228 (DSN 664-9228). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 95-310
Project No. 5FG-2007

September 22, 1995

**Report on Responsibilities and Authority of
Defense Accounting Offices**

Executive Summary

Introduction. This report is part of the Audit of Selected General and Application Controls over the Defense Business Management System. All 75 Defense Accounting Offices that report to the Defense Finance and Accounting Service Denver Center have identical weaknesses in the management structures and policies for issuing travel orders. We are issuing this report to ensure that a proper separation of duties is in place at Defense Accounting Offices.

Audit Objectives. The overall audit objective was to evaluate the adequacy of selected general and application controls over the Defense Business Management System and other related systems. We also reviewed the policies for processing travel orders done by the Defense Accounting Officers. This report addresses the policies for processing travel orders. The audit of the Defense Business Management System addresses the overall audit objective. Our review of the management control program and performance measures applicable to the other stated audit objective will be discussed as part of Inspector General, DoD, Project No. 5FG-2007.01, "Audit of Selected General and Application Controls over the Defense Business Management System."

Audit Results. The Defense Finance and Accounting Service Denver Center Defense Accounting Offices did not provide adequate safeguards against fraud, waste, or mismanagement of funds. As a result, a Defense Accounting Officer approved and authorized his own travel order. In addition, because the Defense Accounting Officer also serves as the Disbursing Officer, the same individual could authorize payment on his own travel voucher. See Part I for a discussion of the finding and Appendix B for a summary of potential benefits of the audit.

Summary of Recommendations. We recommend the Director, Defense Finance and Accounting Service Denver Center establish management control policies and procedures for Defense Accounting Offices which prohibit Defense Accounting Officers from signing and approving their own travel vouchers. We recommend that the duties of Defense Accounting Officers be separate from the duties of Disbursing Officers. In addition, we also recommend that travel orders, travel vouchers, travel advances, and disbursements that are approved, authorized, and issued by Defense Accounting Officers who sign their own travel orders or disburse funds in the capacity of a Disbursing Officer be reviewed.

Management Comments. As of the date of this report, the Director, Defense Finance and Accounting Service Denver Center had not responded to the draft report. We request comments from the Director, Defense Finance and Accounting Service Denver Center by October 23, 1995.

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Part I - Audit Results

Audit Results

Audit Background

The Defense Business Management System is a financial system that performs appropriation accounting, cost accounting, personnel management and payroll functions for specific Defense Agencies and the Defense Business Operations Fund. During December 1994, the Defense Business Management System was chosen as the interim migratory system for the Defense Business Operations Fund. The audit of the Defense Business Management System was made in support of audits of the FY 1995 Defense Business Operations Fund financial statements.

Audit Objectives

The overall audit objective of the Defense Business Management System was to evaluate the adequacy of selected general and application controls over the Defense Business Management System and other related systems. We also reviewed the policies for processing travel orders done by the Defense Accounting Officers. This report addresses the policies for processing travel orders. The audit of the Defense Business Management System addresses the overall audit objectives. Our review of the management control program will be discussed as part of Inspector General, DoD, Project No. 5FG-2007.01, "Audit of Selected General and Application Controls over the Defense Business Management System." Therefore, this report does not discuss the program.

Travel and Disbursing Policies

The Defense Finance and Accounting Service (DFAS) Denver Center Defense Accounting Offices did not provide adequate safeguards against fraud, waste, or mismanagement of funds. DFAS Denver Center Defense Accounting Offices travel and disbursing policies do not require separation of duties over travel and disbursing. As a result, a Defense Accounting Officer approved and authorized his own travel order. In addition, because the Defense Accounting Officer also serves as the Disbursing Officer, the same individual could authorize payment on his own travel voucher. The same problem could occur at all 75 Defense Accounting Offices reporting to DFAS Denver Center.

Background

An accounting technician at the DFAS Columbus Center, Columbus, Ohio, brought to our attention a travel order from Mountain Home Air Force Base (AFB), Idaho. The accounting technician expressed concern because the traveler, who was the Mountain Home AFB Defense Accounting Officer, signed his own travel order as the Requesting Official, the Approving Official, and the Order Authorizing Official. We concluded that the Defense Accounting Officer violated the Joint Travel Regulations when he signed his own travel order in all three capacities. Furthermore, we determined that the Defense Accounting Officer is also the Disbursing Officer for Mountain Home AFB. Because the Mountain Home AFB Defense Accounting Officer is also the Disbursing Officer, he could have approved payment for his own travel vouchers, as well as other disbursements, which is an apparent conflict of interest.

Governing Regulations

The DoD Financial Management Regulation, Volume 5, "Disbursing Policy and Procedures," December 1993, provides guidance on requirements for the separation of duties of accounting personnel and disbursing officers. The General Accounting Office, Policy and Procedures Manual, May 1993, provides further guidance on Federal disbursing and internal control policies. The Joint Travel Regulations (JTR), October 1, 1986, provide guidance on authorized signers of travel orders.

Travel and Disbursing Policies

DoD Financial Management Regulations. The DoD Financial Management Regulation, Volume 5, Chapter 2, "Disbursing Offices, Officers, and Agents," states:

Disbursing Officers shall not be assigned the additional duties of order approving authority, certification officer for claims for reimbursement and contingency funds, custodian of any fund, or other conflict of interest assignments.

Chapter 1, "Purpose, Organization, and Duties," states:

Key duties such as authorizing, approving and recording transactions; issuing or receiving assets; making payments; preparing checks and check signing; certification of funding; and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss to the Government to the greatest extent possible. The DO should not be assigned duties that create a potential conflict of interest.

The General Accounting Office Policy and Procedures Manual. The General Accounting Office Policy and Procedures Manual, Title 7, Chapter 6, "Disbursements," states:

...user responsibilities include ensuring that disbursing operations are separated from such operations as purchasing, receiving, and accounting.

The Office of Management and Budget Internal Control Guidelines. The Office of Management and Budget Internal Control Guidelines state:

Key duties such as authorizing, approving, and recording transactions, issuing or receiving assets, making payments, and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss to the Government. Internal control depends largely on the elimination of opportunities to conceal errors or irregularities. This in turn depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction, thereby creating a situation that permits errors or irregularities to go undetected.

The Joint Travel Regulation. The Joint Travel Regulation (JTR), Chapter 3, "Travel Orders," requires that the Requesting Official for travel orders be someone other than the Authorizing Official, and the Approving Official be someone other than the Requesting Official. The JTR further states that the Requesting Official should be the traveler's supervisor or other employee having full knowledge of the purpose and requirements of the travel mission.

Criteria for Material Management Control Weakness. DoD Directive 5010.38, "Internal Management Control Program," April 4, 1987, gives the following definition of a material weakness:

Material Weakness. Specific instance of noncompliance with the FMFIA of sufficient importance to be reported to the next higher level of management. Such weakness significantly impairs the fulfillment of a DoD Component's mission; deprives the public of needed services; violates statutory or regulatory requirements; significantly weakens safeguards against fraud, waste, or mismanagement of funds, property, or other assets; or results in a conflict of interest.

Magnitude of the Weakness

Personnel in the DFAS Denver Center's Office of Internal Review and the DFAS Denver Center managers who oversee the Defense Accounting Offices reported that all 75 Defense Accounting Offices that report to the DFAS Denver Center have identical management structures and policies for issuing travel orders. The Defense Accounting Officers who report to the DFAS Denver Center also serve as the Disbursing Officers at those sites. The DFAS Denver Center disbursed about \$10.3 billion per month during FY 1995. The policies for issuing travel orders and the management structure are inconsistent with existing regulations. To allow Defense Accounting Officers to serve as the Disbursing Officers places DFAS Denver Center disbursements at risk because fraudulent disbursements can be made without detection.

Discussions with Management

The Director, Disbursing and Travel, DFAS Headquarters (the Director) agreed that Defense Accounting Officers should not sign their own travel orders. However, the Director stated that the Defense Accounting Officer's role as the Disbursing Officer is in accordance with DoD regulations and has been the practice in the Air Force for many years.

The management control weaknesses that we identified exist only at the DFAS Denver Center Defense Accounting Offices. Personnel at the DFAS Cleveland and DFAS Indianapolis Centers stated that travel personnel at the corresponding DFAS Center authorize all travel for Defense Accounting employees. The DFAS Cleveland and DFAS Indianapolis Center personnel also stated that their Defense Accounting Officers do not perform disbursing functions and that the Defense Accounting Officer and the Disbursing Officer are separate employees. The DFAS Kansas City Center also disburses all funds centrally, and all travel is approved and orders issued at the DFAS Kansas City Center.

Recommendations for Corrective Action

We recommend that the Director, Defense Finance and Accounting Service Denver Center:

1. Establish management control policies and procedures for Defense Accounting Offices, consistent with requirements of the Joint Travel Regulations, which prohibit Defense Accounting Officers from signing their own travel orders and approving their own travel vouchers.
2. Separate the duties of Defense Accounting Officers from the duties of Disbursing Officers to comply with the DoD Financial Management Regulation, Volume 5, "Disbursing Policies and Procedures," at all Defense Accounting Offices.
3. Review travel orders, travel vouchers, travel advances, and disbursements that are approved, authorized, and issued by Defense Accounting Officers who sign their own travel orders or disburse funds in the capacity of a Disbursing Officer. The review should cover transactions made since October 1, 1994.
 - a. Determine whether the travel orders, travel vouchers, and disbursements approved, authorized, and issued by the Defense Accounting Officers are valid and appropriate transactions.
 - b. Prepare and issue a report stating conclusions based on the review.
 - c. Based on the review of travel orders, travel vouchers, and disbursements, determine whether DoD regulations were violated and take appropriate action.

Management Comments

The Director, Defense Finance and Accounting Service Denver Center did not provide comments on a draft of this report. Therefore, we request the Director, Defense Finance and Accounting Service Denver Center provide comments in response to the final report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Scope and Methodology. We reviewed the Defense Accounting Officer's travel order from Mountain Home AFB, Idaho. We also conducted interviews with personnel at various DFAS Centers. We obtained and reviewed documents from the DFAS Headquarters and the DFAS Denver Center.

Audit Period, Standards, and Locations. This program audit was made from May 1995 through July 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. The audit did not rely on computer-processed data or statistical sampling procedures. See Appendix B for the potential benefits resulting from the audit. Appendix C lists the organizations visited or contacted during the audit.

Appendix B. Summary of Potential Benefits Resulting from Audit

Recommendations Reference	Description of Benefit	Amount and Type of Benefit
1.	Management Controls. Prevents Defense Accounting Officers from approving invalid travel orders for themselves.	Nonmonetary.
2.	Management Controls. Prevents Defense Accounting Officers from approving payment of their own travel vouchers.	Nonmonetary.
3.	Program Results. Helps DFAS Denver Center to identify invalid travel and fraudulent payments made by Defense Accounting Officers.	Nonmonetary.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Arlington, VA

Defense Finance and Accounting Service, Cleveland, OH

Defense Finance and Accounting Service, Columbus, OH

Defense Finance and Accounting Service, Denver, CO

Defense Finance and Accounting Service, Indianapolis, IN

Defense Finance and Accounting Service, Kansas City, MO

Appendix D. Report Distribution

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Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Comptroller) (Management Systems)
Director, Management Improvement, Office of the Deputy Under Secretary of
Defense (Management Systems)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Finance and Accounting Service Denver Center

Non-Defense Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional
committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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